BRITISH COLUMBIA MILK MARKETING BOARD

Annual Report

For The Dairy Year
1999 - 2000

Eleventh Annual Report
July 31, 2000

2000 Annual General Meeting

OF THE

British Columbia Milk Marketing Board

Chairman	John Jansen
Vice-Chairman	Ben Cuthbert
Secretary-Treasurer	Ben Janzen
Board Member	Charlie Iberg
Board Member	John Pruim
Advisory Committee Chairman	Gordon Souter
Audit Committee Chairman	David Pendray
General Manager	Thomas Demma
Assistant General Manager	Jim Byrne
Manager-Administration	Peter Knight
Policy Analyst	Peter Kuperis
Program Manager	Scott Miles
Finance Officer	Barbara Pacholko
Quota Officer	Jennifer Lavoie
Receptionist	Kelly Fairbanks
Herd Inspector	John Lockhart
Board Office	2669 Deacon Street Abbotsford, BC V2T 6H3 Telephone: (604) 556-3444 Facsimile: (604) 556-7717 Web Site: www.milk-bc.com
Financial Institution	VanCity Credit Union
Auditors	KPMG-Chilliwack
Vendor Auditors	KPMG-Surrey
Legal Counsel	Macaulay McColl

ELEVENTH ANNUAL GENERAL MEETING

WEDNESDAY, NOVEMBER 15, 2000
RAINBOW COUNTRY INN
43971 INDUSTRIAL WAY
CHILLIWACK, BC

AGENDA

Call to Order	**7:30 p.m.**
Reading of the Notice of Meeting	
Approval of the Minutes of the Tenth AGM	
Business Arising from the Minutes	
Chairman's Statement	**John Jansen**
General Manager's Report	**Thomas Demma**
Report of the Audit Committee	**David Pendray**
Auditors' Report	**KPMG**
Financial Statements	**Ben Janzen**
Appointment of Auditor	**David Pendray**
Approval of Members' Remuneration	**David Pendray**
Review of Statistical Information	**Peter Knight**
Report on Legal Issues	**John Jansen**
New Business	
Adjournment	**9:30 p.m.**

101-00447/

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CHAIRMAN'S STATEMENT

Last year at this time I stood before you after completing my first year as Chairman of the British Columbia Milk Marketing Board (BCMMB). At the conclusion of that meeting, the Board Members again elected me to serve as Chairman for another one-year term. Throughout this second year of service I attained a more detailed understanding of the national milk supply system. I have relied upon this heightened understanding to bring about positive changes pertaining to British Columbia's participation in Special Class Pooling (P9) and the Western Milk Pool (WMP).

During the period from August 1, 1999 to July 31, 2000 I served on numerous committees. The focus of these committees was to implement positive changes regarding matters that affect British Columbia's dairy industry, especially pooling outcomes that have a direct impact on producer income. Space does not permit a recitation of these positive developments. However, producers and industry stakeholders have been kept abreast of developments as they unfolded throughout the year. This was achieved through Board newsletters, regional producer meetings and regular meetings with the two dairy committees.

The achievements recently put in place will lead to positive outcomes for the British Columbia dairy industry. These outcomes will include financial gains and an increasing share of Market Sharing Quota (MSQ).

From a financial perspective, effective August 1, 2000 British Columbia's participation in the P9, its successor agreement and the WMP will be more in keeping with British Columbia's ability to produce manufactured milk. Specifically, the P9 pool will include industrial milk only whereas previously it was based on all milk. As a result, the cost of pooling will match British Columbia's ability to produce industrial milk. This is termed the 17/17 Solution.

From the perspective of MSQ, the outlook for British Columbia's ability to better participate in the growth of the nation's manufactured milk market is more positive. This is because British Columbia's share of the growth in national MSQ will occur at a faster rate compared to what was formerly provided by the National Milk Marketing Plan. The six-element National Special Issues Committee Report recently adopted by the Canadian Milk Supply Management Committee sets out an amending formula adopted by all signatory provinces governing the manner by which national MSQ growth is to be allotted. This change took effect August 1, 2000. Essentially, the former 90:10 ratio (historical share of MSQ versus provincial population as a percent of Canada) has been reversed to become a 10:90 ratio. With more weight now on provincial population, the anticipated rate of growth in British Columbia's MSQ will be a definite improvement.

Throughout the 1999/2000 dairy year, producer settlements within a Multiple Component Pricing (MCP) environment were performed in a manner where delivered components were adjusted each month. The adjustment to milk components delivered was in effect for the twelve-month period ending July 31, 2000 and it had a bearing on producer gross revenue. The practice of adjusting delivered milk components was put in place as a transitory measure to mitigate

revenue effects in the first year of MCP. At the commencement of the 2000/2001 dairy year this transitory treatment was eliminated. In addition, the WMP has agreed to change from pooling on Total Solids to pooling on Multiple Components. This will result in lower transfers from British Columbia to the other WMP provinces.

In response to World Trade Organization (WTO) rulings and WTO Appellate Body findings, the dairy industry has developed a domestic milk supply management system that conforms to Canada's bilateral and multilateral trade agreements. This has resulted in the creation of Commercial Export Milk (CEM), which is milk that must be produced outside the regulated marketing system. In British Columbia, the potential for CEM opportunities depends upon the ability of processors/exporters and producers to enter into milk delivery and receiving contracts for the export of dairy products and milk components. By this time next year much more will be known of Canada's experiment with CEM and its impacts on the regulated milk marketing system.

The matter of organic milk production and processing in British Columbia has occupied a good part of the Board's time this past year. Care was taken to encourage the production and processing of transitional milk, and eventually certified organic milk, in a manner consistent with the regulatory environment administered by the BCMMB. It was deemed vital that organic milk should be on the retail shelf, yet in a manner that does not disrupt the marketplace for conventional milk.

Please be certain that the Board Members and I will continue to work for positive change for the British Columbia dairy industry. The decisions that have been made this year have been challenging ones and the decisions to be made in the next year and in the future will no doubt be just as challenging. It must be recognized that the industry is a dynamic one and it should not be measured against what happened ten years ago, or for that matter by what happened last year. The dairy industry both nationally and regionally continues to undergo structural change. You only need to look at the number of licensed producers in 1995 compared to today to see the reality of structural change.

In closing, and as a result of the just completed Board Member election process, I would like to take this opportunity to congratulate Charlie Iberg and Ben Janzen with the commencement of their three-year terms. I also wish to express my appreciation to producers, processors, Board Members and staff for their support and dedication.

Respectfully submitted,

John Jansen
Chairman

GENERAL MANAGER'S REPORT

Legislative and regulatory compliance and governance of the B.C. Milk Marketing Board (BCMMB) are the responsibilities of the Chairman and Board Members as supported by staff.

Annual regulatory obligations are fulfilled through the work and actions of the Milk Industry Advisory Committee (MIAC), Board standing committees, the Audit Committee and the holding of the Annual General Meeting. In addition to holding producer meetings in the fall and spring, the Board also establishes working groups from time to time for the purpose of obtaining the views of dairy industry stakeholders. As well, Board Members and staff attend meetings of other dairy industry groups in order that pertinent information is exchanged. All of these consultative mechanisms leads to the development of BCMMB policy and, where required, the creation of regulation.

Responsibility for day to day BCMMB operations resides with the General Manager assisted by seven employees. Vendor audits are performed on a fee for service basis by the accounting firm of KPMG LLP. Herd inspections, which are an integral part of the audit activity for producer vendors, are performed by a part time contractor. Investigation and surveillance services, when needed, are provided on a fee for service basis by licensed investigators. Legal services are provided by the law firm Macaulay McColl.

Not to the exclusion of others, the fundamental operations of the BCMMB include:

- maintaining a register of licensed producers;
- licensing all producers, vendors, producer vendors and milk transporters;
- serving as the registrar of milk quotas, including establishing the terms on which milk quotas are allotted, held, altered, suspended or cancelled;
- establishing milk utilization classes and accounting values;
- administering the monthly milk producers' equalization pool, including reconciliation of production with processor reported fluid sales and manufactured dairy products processed;
- collecting and remitting industry prescribed fees such as those used for promotion and financing dairy associations;
- administering the legislative and regulatory authority to direct milk for use in all classes;
- administering milk marketing regulations for industry compliance purposes, including, when warranted, making use of inspection authority;
- communicating regularly with dairy industry stakeholders through an established communications program;

- liaising with government, British Columbia dairy and agriculture organizations and milk marketing boards and agencies outside of British Columbia;

- providing secretariat support to MIAC and established working groups; and

- delivering other Board authorized services.

During the August 1, 1999 to July 31, 2000 dairy year, decisions and determinations made by the Board culminated in a number of changes. Significant accomplishments are as follows:

- Administered the New Graduated Entry Program that came into effect August 1, 1999;

- Calculated producer settlement on the basis of adjusted delivered milk components with this information displayed on the monthly producer statement;

- Prepared for calculating producer settlement August 1, 2000 based on actual milk components delivered;

- Developed and implemented the quota swapping mechanism with the first swap effective May 1, 2000;

- Coordinated the examination of critical elements influencing revenue pooling outcomes and the allotment of provincial Market Sharing Quota to assist national negotiations regarding a successor agreement for the Comprehensive Agreement on Special Class Pooling (P9); and

- Identified changes to be made to the Consolidated Order regarding Commercial Export Milk.

During the reporting period a number of changes were made to the Consolidated Order. The monthly changes to Special Milk Class accounting values were accomplished by regular monthly amendments made to Schedule 4 of the Consolidated Order. From time to time throughout the 1999-2000 period other changes regarding the broad range of matters touched upon by the Consolidated Order were made. Changes of this nature were regularly communicated by way of the monthly newsletter.

The goal of the Board is to continue to provide accurate and timely administrative services for producers and processors. Board operations and work activities are constantly examined to gain greater efficiencies and achieve cost savings wherever possible.

Lastly, I would like to extend my appreciation to the BCMMB staff for their dedicated efforts. Their work permitted the Board to meet its regulatory obligations and its administrative and service objectives.

Thomas A. Demma, P. Ag.
General Manager

Financial Statements of

British Columbia Milk Marketing Board

General Fund

Year ended July 31, 2000

KPMG LLP
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AUDITORS' REPORT TO MEMBERS

We have audited the balance sheet of British Columbia Milk Marketing Board General Fund as at July 31, 2000 and the statements of revenues and expenditures, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Board's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the British Columbia Milk Marketing Board General Fund as at July 31, 2000 and the results of its operations and the changes in its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Chilliwack, British Columbia
September 22, 2000

British Columbia Milk Marketing Board

General Fund
Balance Sheet

July 31, 2000, with comparative figures for 1999

	2000	1999
Assets		
Current assets:		
Cash	$ 5,424,414	$ 6,123,005
Accounts receivable (Note 3)	3,704,731	3,970,649
Prepaid expenses	6,300	-
	9,135,445	10,093,654
Investment (Note 4)	76,504	93,889
Capital assets (Note 5)	89,982	95,252
	$ 9,301,931	$ 10,282,795
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities	$ 160,570	$ 176,240
Fees payable or refundable (Note 6)	4,418,642	5,470,226
Unearned fees (Note 7)	1,925,557	1,979,733
	6,504,769	7,626,199
Net assets:		
Invested in capital assets	89,982	95,252
Internally restricted	1,843,575	1,843,575
Unrestricted	863,605	717,769
	2,797,162	2,656,596
Commitment (Note 10)		
Contingent liability (Note 11)		
	$ 9,301,931	$ 10,282,795

On behalf of the Board:

John Jansen, Chairman

Ben Janzen, Secretary-Treasurer

See accompanying notes to financial statements.

British Columbia Milk Marketing Board

General Fund
Statement of Revenues and Expenditures

Year ended July 31, 2000, with comparative figures for 1999

	2000	1999
Revenues:		
Other agencies (Note 8)	$ 33,437,686	$ 28,833,980
Board (Note 9)	1,583,027	1,622,908
	35,020,713	30,456,888
Less transfers to other agencies (Note 8)	33,437,686	28,833,980
	1,583,027	1,622,908
Interest	237,676	207,605
Over quota and unlicenced producer fees - prior years	18,135	146,040
Legal fees recovered	-	71,454
	1,838,838	2,048,007
Expenditures:		
Amortization	22,495	23,813
Audit - Board	17,000	18,550
- Vendor	140,107	148,246
Board member per diems	155,450	137,167
Committees	829	1,190
Consulting and contract wages	38,750	2,867
Data processing	85,748	73,212
General office and administration	254,243	284,887
Legal	99,719	83,584
Salaries and benefits	540,446	518,367
Special projects	90,232	97,189
Travel	253,253	156,987
	1,698,272	1,546,059
Excess of revenues over expenditures	$ 140,566	$ 501,948

See accompanying notes to financial statements.

British Columbia Milk Marketing Board

General Fund
Statement of Changes in Net Assets

Year ended July 31, 2000, with comparative figures for 1999

	2000				1999
	Invested in capital assets	Internally restricted	Unrestricted	Total	Total
Balance, beginning of year	$ 95,252	$ 1,843,575	$ 717,769	$ 2,656,596	$ 2,154,648
Excess (deficiency) of revenues over expenditures	(22,495)	-	163,061	140,566	501,948
Change in investment in capital assets	17,225	-	(17,225)	-	-
Balance, end of year	$ 89,982	$ 1,843,575	$ 863,605	$ 2,797,162	$ 2,656,596

See accompanying notes to financial statements.

British Columbia Milk Marketing Board

General Fund
Statement of Cash Flows

Year ended July 31, 2000, with comparative figures for 1999

	2000	1999
Cash provided by (used in):		
Operating:		
Excess of revenues over expenditures	$ 140,566	$ 501,948
Items not involving cash:		
Amortization of equipment	22,495	23,813
Amortization of investment	19,385	20,000
Net changes in non-cash working capital balances relating to operations:		
Accounts receivable	265,918	(1,166,842)
Prepaid expenses	(6,300)	4,302
Accounts payable and accrued liabilities	(15,670)	53,955
Fees payable or refundable	(1,051,584)	1,804,256
Unearned fees	(54,176)	1,020,688
	(679,366)	2,262,120
Investing:		
Purchase of capital assets	(17,225)	(32,879)
Increase in investment	(2,000)	(25,000)
	(19,225)	(57,879)
(Decrease) increase in cash position	(698,591)	2,204,241
Cash position, beginning of year	6,123,005	3,918,764
Cash position, end of year	$ 5,424,414	$ 6,123,005

See accompanying notes to financial statements.

British Columbia Milk Marketing Board

General Fund
Notes to Financial Statements

Year ended July 31, 2000

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1. General:

(a) The British Columbia Milk Marketing Board ("the Board") is a regulatory body which receives its authority under the Natural Products Marketing (B.C.) Act, the British Columbia Milk Marketing Board Regulation, the Milk Industry Act, the Agricultural Products Marketing Act, the British Columbia Milk Order, the Canadian Dairy Commission Act, and the Dairy Products Marketing Regulations. The General Fund includes all statutory activities of the Board with the exception of Milk Pool Equalization Fund which is accounted for as a distinct fund and reported on separately.

The Milk Pool Equalization Fund has $59,963,195 in equalization revenue and $59,963,195 in equalization expenditures and $5,557,657 in assets and liabilities to July 31, 2000 which are not included in these financial statements.

(b) The Board remits Equalization payments to the Canadian Dairy Commission ("CDC"). The CDC receives the funds in respect of milk and dairy products in inter-provincial trade and, as agent for the Board, distributes them pursuant to prevailing pooling agreements, and, in respect of milk and dairy products in international export trade, pursuant to the above legislation.

2. Significant accounting policies:

(a) Unearned fees:

Unearned fees consists of:

i) the difference between the world price received by producers and domestic price paid by processors for milk shipments assessed by the Board based on individual producer's market share quotas and those computed by the CDC based on the aggregate provincial allotment of quota for the dairy year; plus,

ii) distributions of any surpluses from the marketing operations of the CDC for the year.

The Board exercises discretion over the use of these funds. At the discretion of the Board in any year following the recording of unearned fees, the amounts may be appropriated as revenue or redistributed to producers. Appropriated revenues are recorded as internally restricted funds until utilized by the Board.

(b) Investments:

The investment in Central Agricultural Facility Ltd. is recorded on the equity basis which approximates cost.

(c) Capital assets:

Capital assets are recorded at cost.

Amortization of office equipment has been provided in the accounts on a declining balance basis at an annual rate of 20% calculated on the unamortized balance at the end of the year.

(d) Use of estimates:

The preparation of the financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

3. **Accounts receivable:**

	2000	1999
Milk Pool Equalization Fund	$ 3,177,406	$ 3,426,772
Accounts receivable - trade	527,325	543,877
	$ 3,704,731	$ 3,970,649

4. Investment:

The investment is in a 50% owned subsidiary, Central Agricultural Facility Ltd.

	2000	1999
Advances representing:		
Prepaid rent	$ 109,250	$ 109,250
Less amortized to rent expense	(50,496)	(31,111)
	58,754	78,139
Advances without interest or fixed terms of repayment	17,750	15,750
	$ 76,504	$ 93,889

5. Capital assets:

	2000			1999
	Cost	Accumulated amortization	Net book value	Net book value
Office equipment	$ 293,053	$ 203,071	$ 89,982	$ 95,252

6. Fees payable or refundable:

	2000	1999
Equalization payments - Special Classes and Western Milk Pool	$ 3,869,124	$ 5,023,901
Fees payable:		
Accommodation fees	161,373	158,285
Dairy Farmers of Canada - Promotion	253,273	254,820
	414,646	413,105
Other fees payable to third parties or to producers:		
Skim-off payable to Dairy Farmers of Canada	134,872	-
Excess over-quota and within-quota fees refundable to producers	-	11,687
Deposits held on quota transfers	-	21,533
	134,872	33,220
	$ 4,418,642	$ 5,470,226

7. Unearned fees:

	2000	1999
Balance, beginning of year	$ 1,979,733	$ 959,045
Add:		
Over quota - domestic/world price differential	1,155,129	1,969,703
Prior year over quota fees	-	74,732
Fees - unlicensed producers	-	6,630
Fees - prepaid	-	3,400
	3,134,862	3,013,510
Less:		
Credited to producers in the year	1,202,876	887,737
Transferred to operations	6,429	146,040
	1,209,305	1,033,777
Balance, end of year	$ 1,925,557	$ 1,979,733

8. Fees - other agencies:

During the year the following fees were assessed by the Board for remittance to other agencies:

	2000	1999
Assessed on producers via Milk Pool Equalization Fund payments for remittance to Canadian Dairy Commission:		
Special Classes pooling	$ 18,547,735	$ 14,892,739
Western Milk Pool equalization	3,900,000	3,900,000
Over quota - domestic/world price differential	6,281,881	5,328,140
	28,729,616	24,120,879
Assessed on producers for remittance to Dairy Farmer of Canada:		
Promotion	2,914,901	2,962,836
Assessed on processors for remittance to plant of last resort:		
Accommodation fees	1,793,169	1,750,265
	$ 33,437,686	$ 28,833,980

9. Board fees:

During the year the following fees were assessed by the Board:

	2000	1999
Assessed on producers:		
Administration fees	$ 944,679	$ 955,244
Licence fees	152,016	160,175
Quota exchange fees	-	9,953
Wait list fees	10,300	16,150
	1,106,995	1,141,522
Assessed on processors:		
Administration fees	467,352	472,854
Licence fees	6,068	6,306
	473,420	479,160
Assessed on transporters:		
Licence fees	2,612	2,226
	$ 1,583,027	$ 1,622,908

10. Commitment:

The Board rents its office premises under a sub-lease covering the period December 1, 1997 to November 30, 2003. Lease payments are $8,000 per month (see Note 12).

11. Contingent liability:

The Board is a guarantor of the head lease between Central Agricultural Facility Ltd. ("CAFL") and the ultimate landlord of the business premises utilized by the Board. The Board is jointly liable under the head lease for lease payments to the landlord of $9,000 per month through November 30, 2003.

12. Related party transactions:

Included in general office and administration expense is $96,000 (1999 - $96,000) in lease payments and $19,385 (1999 - $20,000) in amortized prepaid rent to lease facilities from CAFL.

The Board owns 50% of CAFL.

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

Financial Statements of

British Columbia Milk Marketing Board

Milk Pool Equalization Fund

Year ended July 31, 2000

KPMG LLP
Chartered Accountants
#200 – 9123 Mary Street
Chilliwack BC V2P 4H7
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AUDITORS' REPORT TO THE DIRECTORS OF THE BRITISH COLUMBIA MILK MARKETING BOARD

We have audited the balance sheet of British Columbia Milk Marketing Board Milk Pool Equalization Fund as at July 31, 2000 and the statement of revenue and expenditure for the year then ended. These financial statements are the responsibility of the Board's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the British Columbia Milk Marketing Board Milk Pool Equalization Fund as at July 31, 2000 and the results of its operations for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Chilliwack, British Columbia
September 22, 2000

British Columbia Milk Marketing Board

Milk Pool Equalization Fund

Balance Sheet

July 31, 2000, with comparative figures for 1999

	2000	1999
Assets		
Cash	$ 215,932	$ 181,473
Accounts receivable	5,341,725	5,114,171
	$ 5,557,657	$ 5,295,644
Liabilities		
Accounts payable (Note 3)	$ 5,376,538	$ 5,115,218
Long-term accounts payable (Note 4)	181,119	180,426
	$ 5,557,657	$ 5,295,644

On behalf of the Board:

John Jansen, Chairman

Ben Janzen, Secretary-Treasurer

See accompanying notes to financial statements.

British Columbia Milk Marketing Board

Milk Pool Equalization Fund

Statement of Revenue and Expenditure

Year ended July 31, 2000, with comparative figures for 1999

	2000	1999
Revenue:		
Equalization receipts	$ 59,906,309	$ 53,573,511
Interest	56,886	43,505
	59,963,195	53,617,016
Expenditure:		
Equalization payments (Note 5)	59,963,195	53,617,016
Excess of revenue over expenditure	$ -	$ -

See accompanying notes to financial statements.

British Columbia Milk Marketing Board

Milk Pool Equalization Fund
Notes to Financial Statements

Year ended July 31, 2000

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1. **General:**

The British Columbia Milk Marketing Board ("the Board") is a regulatory body which receives its authority under the Natural Products Marketing (B.C.) Act, the British Columbia Milk Marketing Board Regulation, the Milk Industry Act, the Agricultural Products Marketing Act, the British Columbia Milk Order, the Canadian Dairy Commission Act, and the Dairy Products Marketing Regulations.

The Milk Pool Equalization Fund is the method used by the Board to enable producers to participate in all of the sales in each of the Milk Classes established by the Board proportionate to the quota allotted to each producer.

These statements do not include the general fund operations of the board which are reported on separately.

2. **Western Milk Pool:**

Effective March 1, 1997 the four western provinces, British Columbia, Alberta, Saskatchewan and Manitoba, and the Canadian Dairy Commission made an agreement named the Western Milk Pooling Agreement. The purpose of the Agreement is to extend the pooling arrangements within each of the provinces so that all producer returns are pooled among producers in all of the western provinces, as if the western provinces constituted a single market.

3. **Related fund balances:**

Included in accounts payable is an amount of $3,177,406 (1999 - $3,426,772) owing to the Board's General Fund. This amount represents Special Classes, Western Milk Pool and Over Quota - domestic/world price differential equalization settlements charged to producers through the Milk Pool Equalization Fund.

4. Long-term accounts payable:

This amount represents an accumulation of the excess of equalization receipts over equalization payments. It is used to ensure adequate funds are available to meet cash flow needs. The Board does not intend to pay this amount within the next year, accordingly it is classified as a long-term accounts payable.

5. Related fund expenditures:

Included in equalization payments are funds paid or payable to the Board's General Fund for Special Classes, Western Milk Pool, and Over Quota - domestic/world price differential equalization settlements. These expenditures totalled $18,547,735, $3,900,000 and $6,281,881 respectively for the 2000 fiscal year (1999 - $14,892,739, $3,900,000 and $5,328,140 respectively).

6. Use of estimates:

The preparation of the financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenue and expenditures during the reported period. Actual results could differ from those estimates.

7. Statement of cash flow:

A statement of cash flow has not been prepared as the information is readily apparent from the financial statements presented.

STATISTICAL OVERVIEW

On July 31, 2000 there were 725 milk producers in British Columbia. A breakdown of producer populations and quota holdings by region is presented in Table 1 of Appendix A.

Statistical information on milk production, utilization and sales is presented in Tables 2 to 4 in Appendix A. During the 1999/2000 dairy year 589,706,120 litres of milk were produced in British Columbia (see Table 2). Of this total production, 359,323,249 litres were utilized in the Class 1 market (see Table 3 for a breakdown of Class 1 milk sales by product) and 230,382,871 litres were used in the processing of non-fluid dairy products.

Total milk production in the province decreased by 0.76 percent or 4,515,940 litres during the period from August 1, 1999 to July 31, 2000 over the corresponding period in 1998 and 1999 (see Table 2). Class 1 utilization during the August 1, 1999 to July 31, 2000 period increased by 2,081,654 litres or 0.58 percent over the same period in 1998 and 1999 (see Table 2). Industrial milk utilized during the 1999/2000 dairy year compared to the 1998/99 dairy year decreased by 6,597,594 litres or 2.78 percent (see Table 2).

On March 1, 1997 the Western Milk Pool (WMP) was formed consisting of British Columbia, Alberta, Saskatchewan and Manitoba. Production and sales figures for the WMP from August 1, 1999 to July 31, 2000 are presented in Table 4 of Appendix A. Total production of butterfat in the WMP was 63,512,188 kilograms during the 1999/2000 dairy year (see Table 4). Class 1 milk sales in the WMP during the same period were 867,683,539 litres (see Table 4).

There were 29 dairy plants licensed by the Board to process milk as at July 31, 2000. Licensing statistics are provided in Table 5 of Appendix A.

Note: Table 2 includes milk utilized in Class 1(b)(ii) and Class 1(d), whereas Table 3 does not.

GOING CONCERN SALES AND OTHER TRANSFERS

There were 51 transfers of Total Production Quota (TPQ) during the 1999/2000 dairy year that were completed without the use of the quota exchange. Amongst these 51 transactions were 10 family transfers, 12 name changes and 4 merge/splits that accounted for 821,402 kilograms of the total kilograms transferred. Going concern sales resulted in 459,276 kilograms of TPQ being transferred. The Board assessed 21,398 kilograms under the TPQ assessment policy. Details of TPQ transfers during the 1999/2000 dairy year are shown in Table 6 of Appendix A.

QUOTA EXCHANGE

Two quota exchanges were run every month except for July as there are no transfers effective August 1. Details of the quota exchange market clearing prices for the 1999/2000 dairy year are given in Table 7 of Appendix A.

PROVINCIAL/FEDERAL MANUFACTURED MILK QUOTA

The Manufactured Milk Quota (MMQ) allocated to British Columbia for the 1999/2000 dairy year was 7,389,225 kilograms on August 1, 1999. This was increased to 7,453,646 kilograms on June 1, 2000. British Columbia produced 20,196 kilograms of butterfat through the Domestic Dairy Product Innovation Program. British Columbia's deemed MMQ under the Western Milk Pooling Agreement for the 1999/2000 dairy year was 9,706,650 kilograms.

GRADUATED ENTRY PROGRAM

To provide a major portion of the quota necessary for the Graduated Entry Program (GEP), a transfer assessment policy was introduced in August 1986 for fluid quota and in January 1991 for MMQ. The assessment was reduced from 10% to 5% in April 1995. Effective August 1, 1999 the transfer assessment policy was discontinued for TPQ sold on the quota exchange. During the 1999/2000 dairy year the TPQ transfer assessment remained at 5% for going concern sales. Details of the GEP are provided in Tables 8 and 9 of Appendix A.

VENDOR AUDITS

Throughout the 1999/2000 dairy year, the auditing of licensed vendors followed the Board established vendor audit schedule. Although vendors were typically audited on a quarterly basis, the specific frequency for each vendor conformed to risk assessment principles. Characteristics such as plant size and product variety influenced the frequency of vendor audits. Larger vendors were audited from four to six times during the dairy year while two audits was the norm for smaller vendors.

As was expected for the 1999/2000 dairy year, vendor auditors uncovered variances that were characterized as insignificant when examined from the perspective of the total value of milk delivered each month by producers. The finding of audit variances by vendor auditors is not uncommon because vendors capture and record large amounts of data, and slight over or under reporting can occur. There was no trend evident among any of the licensed vendors that the incidence of audit variances exceeds normalcy.

Upon identification, audit variances were incorporated into subsequent monthly equalization pools as audit adjustments. A review of the audit adjustments made during the 1999/2000 dairy year as set out in each of the monthly producer equalization pools serves to demonstrate that audit variances have occurred. However, they have not been of a nature where the monthly blend price or the monthly value for any of the three milk components has been significantly affected.

SUMMARY OF LEGAL PROCEEDINGS INITIATED OR RESOLVED DURING THE 1999 - 2000 DAIRY YEAR

There were no legal proceedings initiated during the period from August 1, 1999 to July 31, 2000.

SUMMARY OF APPEALS TO THE B.C. MARKETING BOARD INITIATED OR RESOLVED DURING THE 1999 - 2000 DAIRY YEAR

Agrifoods International Cooperative Limited

The appeal filed in August 1999 by Agrifoods International Cooperative Limited, doing business as Dairyworld Foods, focused on the decision by the Board to implement Multiple Component Pricing. A resolution was reached by way of mediation and the appeal was withdrawn in November 1999.

Robert Donaldson

The appeal filed in March 2000 by Robert Donaldson, doing business as Bradner Farms, was related to the milk quota surrender provisions of the B.C. Milk Marketing Board Consolidated Order. The appellant withdrew the appeal in April 2000 after a mutually agreeable settlement was reached.

Mae Barichello

The appeal filed in April 2000 by Mae Barichello, doing business as Barbros Jerseys, was in response to the skim-off adjustment formula in the Notice to Producers dated March 14, 2000. At the end of the 1999/2000 dairy year this appeal remained before the Board. However, the appeal was withdrawn in August 2000.

Viewfield Farms Limited

The appeal filed by Viewfield Farms Limited in April 2000 was related to the milk quota surrender provisions of the B.C. Milk Marketing Board Consolidated Order. This appeal remained before the Board at the end of the 1999/2000 dairy year. However, the appeal was withdrawn in September 2000.

Harrison Bay Dairy Farm Limited

The appeal filed by Harrison Bay Dairy Farm Limited in July 2000 referred to a decision by the Board concerning the transfer of quota. At the end of the 1999/2000 dairy year this appeal remained before the Board. However, the appellant withdrew the appeal in August 2000 after a resolution was reached through negotiation.

APPENDIX A
STATISTICAL TABLES

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TABLE 1 - Regional Statistics for British Columbia as at July 31, 2000

Region	Number of Producers*	TPQ Held (kg)
Bulkley Valley	17	285,831
Cariboo	10	309,309
Fraser Valley	505	15,191,947
Kootenays	15	530,722
Okanagan	94	2,280,175
Peace River	5	116,702
Vancouver Island	79	2,628,137
Total	725	21,342,823

* Includes licensed producers in Class C to Class F

TABLE 2 - Qualifying Milk Production in British Columbia for the 1999/2000 and 1998/1999 Dairy Years

	PRODUCTION		UTILIZATION CLASS 1		UTILIZATION OTHER CLASSES	
	Total Litres	Daily Average Litres	Total Litres	Daily Average Litres	Total Litres	Daily Average Litres
1999/2000 Totals	589,706,120	1,611,219	359,323,249	981,758	230,382,871	629,461
1998/1999 Totals	594,222,060	1,628,006	357,241,595	978,744	236,980,465	649,262
Volume Change	-4,515,940	-16,787	2,081,654	3,014	-6,597,594	-19,801
Percent Change	-0.76%	-1.03%	0.58%	0.31%	-2.78%	-3.05%

Notes: Table 2 includes milk utilized in Class 1(b)(ii) and Class 1(d), whereas Table 3 does not.
Table 2 does not include milk produced by Cottage Industry Producer Vendors. That milk is processed into non Class 1 products.

TABLE 3 - Class 1 Milk Sales in British Columbia for the 1999/2000 and 1998/1999 Dairy Years

	1999/2000 Litres	1998/1999 Litres	Volume Change	Percent Change
Homogenized Milk	68,131,152	69,455,396	-1,324,244	-1.91%
Skim Milk (2%B.F.)	131,261,882	133,114,393	-1,852,511	-1.39%
Skim Milk (1%B.F.)	75,490,052	74,354,374	1,135,678	1.53%
Skim Milk	47,606,108	46,969,232	636,876	1.36%
Chocolate Milk	10,361,157	7,456,157	2,905,000	38.96%
Buttermilk	3,273,107	3,301,194	-28,087	-0.85%
Light Cream (10%B.F.)	14,789,124	14,501,462	287,662	1.98%
Cream (18%B.F.)	1,045,114	676,359	368,755	54.52%
Whipping Cream (32%B.F.)	5,137,759	4,918,889	218,870	4.45%
Eggnog	782,924	1,022,135	-239,211	-23.40%
Cordials	465,149	549,957	-84,808	-15.42%
All Products	358,343,528	356,319,548	2,023,980	0.57%

Note: Table 3 does not include milk utilized in Class 1(b)(ii) and Class 1(d), whereas Table 2 does.

TABLE 4 - Western Milk Pool Statistics for the Period from August 1, 1999 to July 31, 2000

	CLASS 1 SALES (LITRES)	% OF CLASS 1 SALES (LITRES)	CLASS 1 SALES PLUS EXCLUSION (LITRES)	AVG. B/F ALL MILK (KG/HL)	CLASS 1 SALES PLUS EXCLUSION (KG)	DEEMED CLASS 1 (KG)	DEEMED INDUSTRIAL (KG)	TOTAL PRODUCTION (KG)
Manitoba	113,075,778	13.03%	118,652,105	3.8051	4,519,015	5,720,087	5,391,808	11,111,895
Saskatchewan	60,287,357	6.95%	62,819,427	3.7274	2,346,976	4,129,146	3,593,202	7,722,348
Alberta	335,041,502	38.61%	345,762,830	3.6543	12,637,622	11,803,106	10,875,162	22,678,268
British Columbia	359,278,902	41.41%	369,756,529	3.7295	13,791,424	11,642,696	10,356,981	21,999,677
TOTAL	867,683,539	100.00%	896,990,891		33,295,037	33,295,035	30,217,153	63,512,188

TABLE 5 - Licensing Information for British Columbia

CLASS OF LICENCE	A	B	C	D	E	F	G	H
ISSUED BETWEEN AUGUST 1, 1999 AND JULY 31, 2000	17	9	785	0	2	1	2	14
CANCELLED BETWEEN AUGUST 1, 1999 AND JULY 31, 2000	1	0	61	0	0	0	0	2
IN EFFECT JULY 31, 2000	16	9	724	0	2	1	2	12
IN EFFECT JULY 31, 1999	16	10	756	0	2	1	2	12

CLASS A LICENCE ISSUED TO: VENDORS PROCESSING BOTH FLUID AND NON FLUID MILK PRODUCTS.

CLASS B LICENCE ISSUED TO: VENDORS PROCESSING ONLY NON FLUID MILK PRODUCTS.

CLASS C LICENCE ISSUED TO: PRODUCERS HOLDING QUOTA AND SHIPPING THEIR MILK TO A CLASS A OR CLASS B LICENSED VENDOR.

CLASS D LICENCE ISSUED TO: PRODUCERS HOLDING QUOTA AND PROCESSING THEIR QUOTA MILK, ON THEIR FARM, INTO BOTH FLUID AND NON FLUID PRODUCTS.

CLASS E LICENCE ISSUED TO: PRODUCERS HOLDING MARKET SHARING QUOTA AND PROCESSING THEIR QUOTA MILK, ON THEIR FARM, INTO NON FLUID PRODUCTS.

CLASS F LICENCE ISSUED TO: PRODUCERS WITH WHOM THE BOARD HAS ENTERED INTO AN AGREEMENT WITH RESPECT TO THE PRODUCTION OF A SPECIALTY PRODUCT OR PRODUCTS, DESTINED FOR A SPECIALTY MARKET, FROM THE APPLICANTS MILK.

CLASS G LICENCE ISSUED TO: PROCESSORS WITH WHOM THE BOARD HAS ENTERED INTO AN AGREEMENT WITH RESPECT TO THE PROCESSING OF MILK INTO A SPECIALTY PRODUCT OR PRODUCTS DESTINED FOR A SPECIALTY MARKET.

CLASS H LICENCE ISSUED TO: TRANSPORTERS OF MILK.

TABLE 6 - Quota Transfers in British Columbia from August 1, 1999 to July 31, 2000

Quota Exchange		Kilograms
Unused TPQ Transferred		262,422
Used TPQ Transferred		312,809
Going Concern Sales		
Unused TPQ Transferred		224,590
Used TPQ Transferred		234,686
Other Transfers		
Family Transfers	285,860	
Name Changes	400,723	
Merge/Splits	134,819	
Total Other Transfers		821,402
TOTAL ALL TRANSFERS		**1,855,909**

TABLE 7 - Quota Exchange Market Clearing Prices in British Columbia from August 1999 to July 2000

	First Quota Exchange		Second Quota Exchange	
Month	Unused TPQ ($/kg)	Used TPQ ($/kg)	Unused TPQ ($/kg)	Used TPQ ($/kg)
Aug-99	$43.00	N/A*	$50.00	N/A*
Sep-99	$46.00	N/A*	$46.00	N/A*
Oct-99	$45.50	$39.00	$46.00	$39.00
Nov-99	$48.00	$38.00	$50.00	$40.00
Dec-99	$51.00	$43.00	$53.00	$43.25
Jan-00	$55.00	$46.00	$58.00	$48.00
Feb-00	$61.00	$48.00	$55.25	$45.00
Mar-00	$55.00	$44.00	$57.00	$44.25
Apr-00	$56.25	$46.00	$57.00	$47.50
May-00	$60.00	$49.75	$59.00	$48.50
Jun-00	$57.00	$50.50	$57.00	$50.00
Jul-00	N/A**	N/A**	N/A**	N/A**

* No Used TPQ Exchanges in August and September
** No Unused or Used TPQ Exchanges in July

TABLE 8 - Number of Producers Started on the Graduated Entry Program

Year	Fraser Valley	Okanagan	Kootenays	Cariboo	Peace River	Vancouver Island	Total
1990	7	3					10
1991	7	3					10
1992	8	3					11
1993	5	2					7
1994	5						5
1995	6	1					7
1996	8	2					10
1997	9	1					10
1998	6	4					10
1999	2	2					4

TABLE 9 - Total Production Quota Issued to Graduated Entry Program Participants

Year	Producers Started on Program	Initial Allotment of Total Production Quota (Kilograms)	Matching Allotment of Total Production Quota (Kilograms)	Total Allotment (Kilograms)
1997	10	29,500	30,431	59,931
1998	10	29,500	32,914	62,414
1999			1,414	1,414
		Temporary Allotment of Total Production Quota (Kilograms)		
1999	4	28,000		28,000

NOTES